

CITY OF FONTANELLE

Fontanelle, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2016

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Prior to January 1, 2016</u>		
Nathan Jensen	Mayor	December 31, 2015
Amanda Sickles	Mayor Pro Tem	December 31, 2015
Marlene Davis	Council Member	December 31, 2015
Ron Reed	Council Member	December 31, 2017
Linda Shafer	Council Member	December 31, 2015
Jim Warrior	Council Member	December 31, 2017
Susan Newton	City Clerk	Indefinite
Clint Hight	City Attorney	Indefinite
<u>Subsequent to December 31, 2015</u>		
Wayne Miller	Mayor	December 31, 2017
Marlene Davis	Mayor Pro Tem	December 31, 2019
Cindy Baldago	Council Member	December 31, 2019
Rodney Dukes	Council Member	December 31, 2019
Ron Reed *	Council Member	December 31, 2017
Cassie Warner	Council Member	December 31, 2017
Susan Newton	City Clerk	Indefinite
Clint Hight	City Attorney	Indefinite

* Ron Reed resigned from the council effective May 1, 2016 and was replaced by Laura Fritz.

Amanda Held was hired April 11, 2016 to replace Susan Newton as City Clerk as Susan Newton retired subsequent to June 30, 2016.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Fontanelle, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fontanelle, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fontanelle, Iowa as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fontanelle's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included on pages 31 through 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 8 and 24 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2016 on our consideration of the City of Fontanelle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fontanelle's internal control over financial reporting and compliance.

*Schuring, Uitermarkt,
Sims, McCleish, Ver Meer, P.C.*

Schuring, Uitermarkt, Sims, McCleish, Ver Meer, P.C.
Urbandale, Iowa
November 17, 2016

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The City of Fontanelle provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 23.6%, or \$79,002, from fiscal 2015 to fiscal year 2016. Property taxes increased \$3,939, Local Option Sales Tax increased \$4,891 and intergovernmental receipts increased \$14,520. The largest increase was in miscellaneous, which increased \$51,407 and included donations for the new fire truck.
- Governmental activities disbursements increased 97.3%, or \$216,778, in fiscal 2016 from fiscal 2015. The largest disbursement was for the purchase of the new fire truck which totaled \$257,122.
- The City's total cash basis net position increased 7.9%, or \$165,460 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the government activities decreased \$111,815, and the cash basis net position of the business type activities increased by \$277,275.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential for a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and information regarding the City's IPERS participation and liability.

Supplementary Information provides detailed information about the non-major governmental funds and the City's long-term debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information, which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, electric department and the landfill department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, electric, and landfill funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$793,476 to \$681,661. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year ended June 30, 2016	Year ended June 30, 2015
Receipts:		
Property taxes	\$131,666	127,727
TIF revenues	0	176
Other city taxes	72,900	68,009
Licenses and permits	781	927
Use of money and property	1,207	1,079
Intergovernmental	116,515	101,995
Charges for service	4,864	425
Miscellaneous	<u>85,910</u>	<u>34,503</u>
Total Receipts	<u>413,843</u>	<u>334,841</u>
Disbursements:		
Operating:		
Public safety	43,585	37,972
Public works	65,395	103,758
Culture and recreation	46,905	51,699
Community and economic development	317	200
General government	26,162	29,079
Capital Outlay:		
Public Safety	<u>257,122</u>	<u>0</u>
Total Disbursements	<u>439,486</u>	<u>222,708</u>
Transfers	<u>(86,172)</u>	<u>0</u>
Net Change in Cash Balances	(111,815)	112,133
Cash Balances at Beginning of Year	<u>793,476</u>	<u>681,343</u>
Cash Balances at End of Year	<u>\$681,661</u>	<u>793,476</u>

Nonspendable – Permanent fund	\$ 12,588	11,925
Restricted for:		
Special revenue funds	442,334	519,505
Debt service	11,612	11,590
Capital projects fund	9,717	9,717
Unrestricted – General fund	<u>205,410</u>	<u>240,739</u>
Total Cash Basis Fund Balances	<u>\$ 681,661</u>	<u>793,476</u>

Total governmental activities receipts for the fiscal year were \$413,843 compared to \$334,841 last year. Total disbursements increased from \$222,708 to \$439,486.

Changes in Cash Basis Net Position of Business Type Activities

	Year ended June 30, <u>2016</u>	Year ended June 30, <u>2015</u>
Operating Receipts:		
Charges for service:		
Water	\$ 193,940	195,853
Sewer	101,930	81,488
Electric	697,473	726,771
Landfill	<u>9,360</u>	<u>9,159</u>
Total Operating Receipts	<u>1,002,703</u>	<u>1,013,271</u>
Operating Disbursements:		
Business type activities:		
Water	133,165	125,831
Water Main Construction	22,889	389,265
Sewer	70,872	82,174
Electric	546,346	634,921
Landfill	<u>7,174</u>	<u>11,978</u>
Total Operating Disbursements	<u>780,446</u>	<u>1,244,169</u>
Excess (Deficit) of Disbursements over (under) Receipts	222,257	(230,898)
Total Non-Operating (Disbursements) Receipts	<u>(31,154)</u>	<u>320,769</u>
Transfers	<u>86,172</u>	<u>0</u>
Net Change in Cash Balances	277,275	89,871
Cash Balances at Beginning of Year	<u>1,309,839</u>	<u>1,219,968</u>
Cash Balances at End of Year	<u>\$1,587,114</u>	<u>1,309,839</u>

Total business type activities receipts for the fiscal year were \$1,002,703 compared to \$1,013,271 last year. Total disbursements decreased from \$1,244,169 to \$780,446, mainly due to the Water Main Replacement Project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$681,661, a decrease of \$111,815 from last year's total of \$793,476.

- Revenues of \$72,900 were received from the local option sales tax.
- The General Fund had a decrease of \$45,046.

- The Road Use Tax Fund had an increase of \$39,531 this year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an increase of \$8,900 this fiscal year. Increased revenue is necessary to pay water revenue bonds.
- The Sewer Fund had an increase of \$31,392 this year.
- The Electric Fund cash balance had an increase of \$171,293 this fiscal year.
- The Landfill Fund had a net increase of \$2,186 this fiscal year.

BUDGETARY HIGHLIGHTS

The budget was amended in May to allow for unanticipated expenditures, mainly due to the purchase of a new fire truck.

DEBT ADMINISTRATION

At June 30, 2016, the City is indebted for water revenue bonds in the amount of \$542,000 to pay for the water main replacement project. Including \$95,165 of interest, the total obligation is \$637,165.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$1,055,876.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fontanelle's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The unemployment rate of 3.1% continues to be lower in Adair County. The national rate is 4.9 percent and the state's rate is 4.0 percent.

Inflation in the State continues to be similar to the National Consumer Price Index which showed an increase of 1.0% during the past year.

These indicators were taken into account when adopting the budget for fiscal year 2017. No new programs have been added to the 2017 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Amanda Held, City Clerk, 313 Washington Street, Fontanelle, Iowa.

CITY OF FONTANELLE
Cash Basis Statement of Activities and Net Position
As of and For the Year Ended June 30, 2016

Function / Programs:	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Governmental activities:				
Public safety	\$ 300,707	0	24,210	64,857
Public works	65,395	6,800	83,045	0
Culture and recreation	46,905	2,938	11,082	0
Community and economic development	317	0	0	0
General government	26,162	1,926	0	0
Total Governmental Activities	<u>439,486</u>	<u>11,664</u>	<u>118,337</u>	<u>64,857</u>
Business type activities:				
Water	196,470	198,560	83	0
Sewer	70,872	101,930	334	0
Electric	546,346	697,473	4,004	0
Garbage	7,174	9,360	0	0
Total Business Type Activities	<u>820,862</u>	<u>1,007,323</u>	<u>4,421</u>	<u>0</u>
Total	<u>\$ 1,260,348</u>	<u>1,018,987</u>	<u>122,758</u>	<u>64,857</u>

General Receipts:

Property tax levied for general purposes
Local option sales tax
Unrestricted interest on investments
Proceeds of long-term debt
Miscellaneous
Transfers

Total General Receipts

Change in Cash Basis Net Position

Cash Basis Net Position at Beginning of Year

Cash Basis Net Position at End of Year

Cash Basis Net Position

Restricted:

Nonexpendible - Permanent Fund

Expendible:

Streets

Debt service

Other purposes

Unrestricted

Total Cash Basis Net Position

The accompanying notes are an integral part of these financial statements.
See independent auditor's report.

CITY OF FONTANELLE
Cash Basis Statement of Activities and Net Position
As of and For the Year Ended June 30, 2016

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(211,640)	0	(211,640)
24,450	0	24,450
(32,885)	0	(32,885)
(317)	0	(317)
(24,236)	0	(24,236)
(244,628)	0	(244,628)
<hr/>		
0	2,173	2,173
0	31,392	31,392
0	155,131	155,131
0	2,186	2,186
0	190,882	190,882
(244,628)	190,882	(53,746)
<hr/>		
131,666	0	131,666
72,900	0	72,900
1,207	0	1,207
0	221	221
13,212	0	13,212
(86,172)	86,172	0
132,813	86,393	219,206
(111,815)	277,275	165,460
793,476	1,309,839	2,103,315
681,661	1,587,114	2,268,775
<hr/>		
\$ 12,588	0	12,588
133,694	0	133,694
11,612	6,078	17,690
318,357	0	318,357
205,410	1,581,036	1,786,446
\$ 681,661	1,587,114	2,268,775
<hr/>		

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2016

	General	Special Revenue Road Use Tax	Local Option Sales Tax	Other Nonmajor Governmental Funds
Receipts:				
Property tax	\$ 118,082	0	0	13,584
Other city taxes	0	0	72,900	0
Licenses and permits	781	0	0	0
Use of money and property	1,167	0	0	40
Intergovernmental	33,470	83,045	0	0
Charges for services	4,864	0	0	0
Miscellaneous	79,110	0	0	6,800
Total Receipts	<u>237,474</u>	<u>83,045</u>	<u>72,900</u>	<u>20,424</u>
Disbursements:				
Operating:				
Public safety	39,731	0	0	3,854
Public works	15,576	43,514	0	6,305
Culture and recreation	46,627	0	0	278
Community and economic development	0	0	0	317
General government	23,464	0	0	2,698
Capital outlay:				
Public safety	157,122	0	100,000	0
Total Disbursements	<u>282,520</u>	<u>43,514</u>	<u>100,000</u>	<u>13,452</u>
Excess (Deficit) of Receipts over (under) Disbursements	(45,046)	39,531	(27,100)	6,972
Other financing sources (uses) - transfers	<u>0</u>	<u>0</u>	<u>(86,172)</u>	<u>0</u>
Change in Cash Balances	(45,046)	39,531	(113,272)	6,972
Cash Balances at Beginning of Year	240,739	94,163	412,167	46,407
Cash Balances at End of Year	<u>\$ 195,693</u>	<u>133,694</u>	<u>298,895</u>	<u>53,379</u>
Cash Basis Fund Balances:				
Nonspendable - Permanent Fund	\$ 0	0	0	12,588
Restricted for:				
Debt service	0	0	0	11,612
Streets	0	133,694	0	0
Other purposes	0	0	298,895	19,462
Unassigned	195,693	0	0	9,717
Total Cash Basis Fund Balances	<u>\$ 195,693</u>	<u>133,694</u>	<u>298,895</u>	<u>53,379</u>

The accompanying notes are an integral part of these financial statements.
See independent auditor's report.

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2016

Total

131,666
72,900
781
1,207
116,515
4,864
85,910

413,843

43,585
65,395
46,905
317
26,162

257,122

439,486

(25,643)

(86,172)

(111,815)

793,476

681,661

12,588

11,612
133,694
318,357
205,410

681,661

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2016

	Enterprise Funds			
	<u>Water</u>	<u>Water Main Construction</u>	<u>Sewer</u>	<u>Electric</u>
Operating Receipts:				
Charges for services	\$ 193,940	0	101,930	697,473
Total Operating Receipts	<u>193,940</u>	<u>0</u>	<u>101,930</u>	<u>697,473</u>
Disbursements:				
Operating:				
Business type activities	133,165	0	70,872	546,346
Capital Outlay:				
Business type activities	0	22,889	0	0
Total Operating Disbursements	<u>133,165</u>	<u>22,889</u>	<u>70,872</u>	<u>546,346</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>60,775</u>	<u>(22,889)</u>	<u>31,058</u>	<u>151,127</u>
Non-Operating Receipts:				
Use of money and property	83	0	334	4,004
Miscellaneous	4,620	0	0	0
Proceeds of long-term debt	0	221	0	0
Debt service	(40,416)	0	0	0
Total Non-Operating Receipts (Disbursements)	<u>(35,713)</u>	<u>221</u>	<u>334</u>	<u>4,004</u>
Excess (Deficit) of Receipts over (under) Disbursements	25,062	(22,668)	31,392	155,131
Transfers	<u>(16,162)</u>	<u>86,172</u>	<u>0</u>	<u>16,162</u>
Net Change in Cash Balances	8,900	63,504	31,392	171,293
Cash Balances at Beginning of Year	<u>106,852</u>	<u>(63,283)</u>	<u>89,904</u>	<u>1,166,747</u>
Cash Balances at End of Year	<u>\$ 115,752</u>	<u>221</u>	<u>121,296</u>	<u>1,338,040</u>
Cash Basis Fund Balances:				
Restricted for debt service	\$ 6,078	0	0	0
Unrestricted:	<u>109,674</u>	<u>221</u>	<u>121,296</u>	<u>1,338,040</u>
	<u>\$ 115,752</u>	<u>221</u>	<u>121,296</u>	<u>1,338,040</u>

The accompanying notes are an integral part of these financial statements.
See independent auditor's report.

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2016

<u>Garbage</u>	<u>Total</u>
9,360	1,002,703
<u>9,360</u>	<u>1,002,703</u>
7,174	757,557
0	22,889
<u>7,174</u>	<u>780,446</u>
<u>2,186</u>	<u>222,257</u>
0	4,421
0	4,620
0	221
0	(40,416)
<u>0</u>	<u>(31,154)</u>
2,186	191,103
<u>0</u>	<u>86,172</u>
2,186	277,275
<u>9,619</u>	<u>1,309,839</u>
<u>11,805</u>	<u>1,587,114</u>
0	6,078
<u>11,805</u>	<u>1,581,036</u>
<u>11,805</u>	<u>1,587,114</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Fontanelle is a political subdivision of the State of Iowa located in Adair County. The City operates under the Mayor-Council form of government with the mayor and council members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and garbage collection utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Fontanelle has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Fontanelle has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Government-wide Financial Statement

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue Funds:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax collections which are restricted for use on capital improvement projects.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the operation and maintenance of the City's water system.

Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

Electric Fund – The Electric Fund accounts for the operation and maintenance of the City's electric utility system.

Measurement Focus and Basis of Accounting

The City of Fontanelle maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

See independent auditor's report.

CITY OF FONATANELLE
Notes to the Financial Statements
June 30, 2016

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Pooled Deposits and Investments

The City's deposits in banks at June 30, 2016 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's policy is to generally limit investments to maturities of three years or less, with most investments maturing in a period of one year.

(3) Commitments

The City has commitments on open construction contracts totaling approximately \$39,000.

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

(4) Bonded Indebtedness

A summary of the City's June 30, 2016 long-term debt is as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Water Revenue Bonds</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	1.75%	\$ 25,000	9,485	34,485
2018	1.75	26,000	9,048	35,048
2019	1.75	26,000	8,592	34,592
2020	1.75	27,000	8,138	35,138
2021	1.75	27,000	7,665	34,665
		<u>131,000</u>	<u>42,928</u>	<u>173,928</u>
2022-2026	1.75	146,000	30,940	176,940
2027-2031	1.75	161,000	17,640	178,640
2032-2034	1.75	104,000	3,657	107,657
		<u>\$542,000</u>	<u>95,165</u>	<u>637,165</u>

Interest paid on the Water Revenue Bonds during the year ended June 30, 2016 totaled \$11,416.

The Water Revenue Bonds provide for monthly transfers from the Water Revenue Fund to the Water Revenue Bond Sinking Fund sufficient to pay the annual principal and interest payments on the Water Revenue Bonds. Future required minimum transfers are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2017	\$ 34,485
2018	35,048
2019	34,592
2020	35,138
2021	34,665
	<u>173,928</u>
2022-2026	176,940
2027-2031	178,640
2032-2034	107,657
	<u>\$ 637,165</u>

In addition, the City has remaining cash in the Debt Service Fund restricted for future bond payments at June 30, 2016 as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$11,612</u>

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

(5) Pension Plan

Plan Description

IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications may be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the underfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$17,805.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$111,399 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was .0022548%, which was a decrease of 0.0002146% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows and deferred inflows totaled \$10,324, \$21,927 and \$4,012 respectively.

There were no non-employer contributing entities to IPERS.

CITY OF FONTAELLE
Notes to the Financial Statements
June 30, 2016

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24%	6.29%
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Core plus fixed income	28	2.04
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
	100%	

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease <u>6.50%</u>	Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
City's proportionate share of the net pension liability	\$ 207,346	\$ 111,399	\$ 30,428

IPERS' Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use. Sick leave may be paid upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2016 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 25,477
Vacation	4,042
	<u>\$ 29,519</u>

The liability has been computed based on rates of pay as of June 30, 2016.

(7) Risk Management

The City of Fontanelle is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes the liability for insurance deductibles and claims in excess of insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

See independent auditor's report.

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2016

(8) Property Tax Calendar

Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.

(9) Interfund Transfers

The detail of interfund transfers during the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Water Main Construction	Local Option Sales Tax	\$ 86,172
Enterprise Fund - Electric	Enterprise Fund - Water	16,162
		<u>\$ 102,334</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) New Accounting Pronouncement

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

CITY OF FONTANELLE

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Cash Balances - Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Year Ended June 30, 2016

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 131,666	0	131,666
Other city taxes	72,900	0	72,900
Licenses and permits	781	0	781
Use of money and property	1,207	4,421	5,628
Intergovernmental	116,515	0	116,515
Charges for service	4,864	1,002,703	1,007,567
Miscellaneous	85,910	4,620	90,530
Other financing sources	0	86,393	86,393
Total Receipts	<u>413,843</u>	<u>1,098,137</u>	<u>1,511,980</u>
Disbursements:			
Public safety	300,707	0	300,707
Public works	65,395	0	65,395
Culture and recreation	46,905	0	46,905
Community and economic development	317	0	317
General government	26,162	0	26,162
Business type activities	0	820,862	820,862
Other financing uses	86,172	0	86,172
Total Disbursements	<u>525,658</u>	<u>820,862</u>	<u>1,346,520</u>
Excess (Deficit) of Receipts over (under) Disbursements	(111,815)	277,275	165,460
Balances at Beginning of Year	793,476	1,309,839	2,103,315
Balances at End of Year	<u>\$ 681,661</u>	<u>1,587,114</u>	<u>2,268,775</u>

See independent auditor's report.

CITY OF FONTANELLE

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Cash Balances - Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Year Ended June 30, 2016

<u>Budgeted Amount</u>		<u>Variance</u>
<u>Original</u>	<u>Amended</u>	<u>to Final</u>
126,817	126,817	4,849
73,342	73,342	(442)
845	845	(64)
2,020	2,020	3,608
118,210	118,210	(1,695)
1,195,069	1,195,069	(187,502)
2,500	2,500	88,030
0	90,000	(3,607)
<u>1,518,803</u>	<u>1,608,803</u>	<u>(96,823)</u>
55,691	315,851	15,144
136,358	136,358	70,963
77,557	77,557	30,652
0	317	0
33,976	33,976	7,814
1,160,043	1,182,932	362,070
0	0	(86,172)
<u>1,463,625</u>	<u>1,746,991</u>	<u>400,471</u>
55,178	(138,188)	303,648
1,767,502	1,767,502	335,813
<u>1,822,680</u>	<u>1,629,314</u>	<u>639,461</u>

CITY OF FONTANELLE
Notes to Other Information – Budgetary Reporting
June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$90,000 and budgeted disbursements by \$283,366. The budget amendment is reflected in the final budgeted figures.

See independent auditor's report.

CITY OF FONTANELLE

Schedule of the City's Proportionate Share of the Net Pension Liability

**Iowa Public Employees' Retirement System
For the Last Two Years***

Other Information

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0022548%	0.0024694%
City's proportionate share of the net pension liability	\$ 111,399	97,935
City's covered-employee payroll	\$ 197,140	178,475
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.51%	54.87%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal were determined as of June 30 of the preceding fiscal year.

See independent auditor's report.

CITY OF FONTANELLE
Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Years Ended June 30

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contributions	\$ 17,805	16,178	17,153	16,129
Contributions in relation to the statutorily required contribution	(17,805)	(16,178)	(17,153)	(16,129)
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>
City's covered-employee payroll	\$ 197,140	178,475	189,402	182,190
Contributions as a percentage of covered-employee payroll	9.03%	9.06%	9.06%	8.85%

See independent auditor's report.

CITY OF FONTANELLE
Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Years Ended June 30

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
15,035	11,766	10,993	10,421	10,787	9,417
(15,035)	(11,766)	(10,993)	(10,421)	(10,787)	(9,417)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
181,594	164,781	160,251	159,649	171,355	153,861
8.28%	7.14%	6.86%	6.53%	6.30%	6.12%

CITY OF FONTANELLE
Notes to Other Information – Pension Liability
Year Ended June 30, 2016

Changes of Benefit Terms

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

See independent auditor's report.

CITY OF FONTANELLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and For the Year Ended June 30, 2016

	<u>Special Revenue</u>					
	<u>Employee</u>	<u>TIF</u>	<u>Debt</u>	<u>Capital</u>	<u>Permanent</u>	<u>Total</u>
	<u>Benefits</u>		<u>Service</u>	<u>Projects</u>	<u>Fund</u>	
Receipts:						
Property tax	\$ 13,584	0	0	0	0	13,584
Use of money and property - interest	0	0	22	0	18	40
Miscellaneous	0	0	0	0	6,800	6,800
Total Receipts	<u>13,584</u>	<u>0</u>	<u>22</u>	<u>0</u>	<u>6,818</u>	<u>20,424</u>
Disbursements:						
Operating:						
Public safety	3,854	0	0	0	0	3,854
Public works	150	0	0	0	6,155	6,305
Culture and recreation	278	0	0	0	0	278
Community and economic development	0	317	0	0	0	317
General government	2,698	0	0	0	0	2,698
Total Disbursements	<u>6,980</u>	<u>317</u>	<u>0</u>	<u>0</u>	<u>6,155</u>	<u>13,452</u>
Excess (Deficit) of Receipts over (under) Disbursements	6,604	(317)	22	0	663	6,972
Cash Balances at Beginning of Year	12,858	317	11,590	9,717	11,925	46,407
Cash Balances at End of Year	<u>\$ 19,462</u>	<u>0</u>	<u>11,612</u>	<u>9,717</u>	<u>12,588</u>	<u>53,379</u>
Cash Basis Fund Balances:						
Nonspendable - Permanent Fund	\$ 0	0	0	0	12,588	12,588
Restricted for other purposes	19,462	0	11,612	0	0	31,074
Unassigned	0	0	0	9,717	0	9,717
	<u>\$ 19,462</u>	<u>0</u>	<u>11,612</u>	<u>9,717</u>	<u>12,588</u>	<u>53,379</u>

See independent auditor's report.

CITY OF FONTANELLE
Schedule of Long-Term Debt and Interest
June 30, 2016

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Water Revenue Bonds SRF	June 20, 2014	1.75%	\$ 600,000
Total Water Revenue Bonds			

See independent auditor's report.

CITY OF FONTANELLE
Schedule of Long-Term Debt and Interest
June 30, 2016

<u>Balance</u> <u>June 30, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Interest</u> <u>Paid</u>
\$ 570,779	221	29,000	542,000	\$ 11,416
<u>\$ 570,779</u>	<u>221</u>	<u>29,000</u>	<u>542,000</u>	<u>\$ 11,416</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2016

Water Revenue Bond

SRF

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Issued 6-20-14</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2017	1.75%	\$ 25,000
2018	1.75	26,000
2019	1.75	26,000
2020	1.75	27,000
2021	1.75	27,000
2022	1.75	28,000
2023	1.75	29,000
2024	1.75	29,000
2025	1.75	30,000
2026	1.75	30,000
2027	1.75	31,000
2028	1.75	32,000
2029	1.75	32,000
2030	1.75	33,000
2031	1.75	33,000
2032	1.75	34,000
2033	1.75	35,000
2034	1.75	35,000
		<u>\$ 542,000</u>

See independent auditor's report.

CITY OF FONTANELLE

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Years Ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Receipts:				
Property tax	\$ 131,666	127,727	121,927	121,679
TIF revenues	0	176	341	10,631
Other city taxes	72,900	68,009	66,955	75,970
Licenses and permits	781	927	887	823
Use of money and property	1,207	1,079	957	1,043
Intergovernmental	116,515	101,995	97,579	91,946
Charges for services	4,864	425	3,531	3,574
Miscellaneous	85,910	34,503	33,162	37,417
Total Receipts	<u>\$ 413,843</u>	<u>334,841</u>	<u>325,339</u>	<u>343,083</u>
Disbursements:				
Public safety	\$ 300,707	37,972	61,509	43,963
Public works	65,395	103,758	85,816	105,323
Culture and recreation	46,905	51,699	66,836	98,828
Community and economic development	317	200	0	7,332
General government	26,162	29,079	24,003	22,521
Debt service	0	0	0	0
Capital projects	0	0	0	0
Total Disbursements	<u>\$ 439,486</u>	<u>222,708</u>	<u>238,164</u>	<u>277,967</u>

See independent auditor's report.

CITY OF FONTANELLE
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Years Ended June 30

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
114,177	154,871	150,885	142,714	131,482	134,611
4,355	4,425	303	7,873	18,437	18,807
56,231	59,273	45,624	58,974	52,260	43,934
833	1,176	787	1,189	1,191	774
1,713	5,705	13,528	12,818	10,007	12,259
148,575	230,576	87,083	75,557	76,725	81,769
3,255	3,895	205	2,654	4,361	3,023
49,872	26,258	60,308	78,134	27,753	23,598
<u>379,011</u>	<u>486,179</u>	<u>358,723</u>	<u>379,913</u>	<u>322,216</u>	<u>318,775</u>
45,550	32,130	39,593	34,848	41,016	68,228
87,887	91,125	97,266	125,816	92,327	88,245
65,157	61,585	47,731	40,676	42,170	33,043
6,160	5,765	4,127	4,252	4,015	10,935
26,329	26,130	19,586	21,044	25,710	20,761
0	47,565	50,085	47,305	49,505	51,585
78,630	433,819	80	39,348	0	0
<u>309,713</u>	<u>698,119</u>	<u>258,468</u>	<u>313,289</u>	<u>254,743</u>	<u>272,797</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Fontanelle, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fontanelle, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 17, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fontanelle's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fontanelle's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fontanelle's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that we consider to be significant deficiencies but none that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fontanelle's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fontanelle's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for two item which continue into the current year as items 16-III-F and 16-III-G.

City of Fontanelle's Responses to Findings

The City of Fontanelle's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fontanelle's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schuring, Uitermarkt,
Sims, McCleish, Ver Meer, P.C.*

Schuring, Uitermarkt, Sims, McCleish, Ver Meer, P.C.
Urbandale, Iowa
November 17, 2016

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2016

Part I: Summary of Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2016

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies in Internal Control

16-II-A Segregation of Duties

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee is involved in utility billings, cash receipts, cash disbursements, bank deposits, bank reconciliations and general ledger accounting.

We realize that with the limited number of employees, improvement of these controls is not economically feasible. However, we believe management of the City should be aware of the situation.

Response: The Council is aware of the situation.

Conclusion: Response accepted.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2016

Part III: Other Findings Related to Statutory Reporting

16-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2016 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

16-III-B Questionable Disbursements

We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

16-III-C Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

16-III-D Business Transactions

During the year ended June 30, 2016, there were no business transactions between the City and City officials.

16-III-E Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

16-III-F Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not. We did note two occasions when the council minutes were not published within fifteen days of the Council meeting in accordance with Chapter 372(13)b of the Code of Iowa. The City should publish the council minutes as required by the Code of Iowa.

Response: The minutes that were not timely published were the result of unusually timed meetings and the publisher's schedule. We will make every attempt to have the minutes published on a timely basis.

Conclusion: Response accepted.

16-III-G Deposits and Investments

The City has adopted an appropriate resolution regarding the deposit of public funds in an approved financial institution. Prior to increasing the maximum deposit amount authorized on August 10, 2015, the maximum deposit amount specified in the resolution was exceeded. We noted no other instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

Response: The maximum deposit amount was increased as a result of a prior year audit finding. The current maximum deposit limit appears to be adequate.

Conclusion: Response accepted.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2016

16-III-H Improper Payment of Sales Tax

It was noted that the City improperly paid \$797.16 in sales tax on a purchase that should be tax exempt. The City should carefully monitor all invoices to determine that sales tax is not improperly being charged. In addition, the City should contact the vendor regarding this overpayment to obtain a refund of the amount overpaid.

Response: We will carefully monitor all invoices for accuracy and obtain a refund of the overpaid sales tax from the vendor.

Conclusion: Response accepted.